



AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GREATER TAUNG LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Greater Taung Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages [XX] to [XX]

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Property Rates

7. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of the prior year's property tax of R4 069 782 included in the statement of financial performance and note 12 to the financial statements. The municipality's system did not allow for the performance of alternative procedures due to a lack of reconciliations and an updated property register for the 2009 financial year.

Consumer debtors

8. South African Statement of Generally Accepted Accounting Practice, IAS 39, Financial Instruments: *Recognition and Measurement*, paragraph 58 requires that an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. The municipality did not assess the consumer debtors, individually or by category, for any indication that these assets may be impaired. The municipality's system did not allow alternative procedures to practicably determine the misstatement in debtors and accumulated surpluses. Consequently I was unable to satisfy myself as to the valuation and allocation, existence, and rights and obligations of consumer debtors of R1 948 873 (2009: R4 252 203) as disclosed in note 2 to the financial statements.

Property, plant and equipment

9. The municipality could not provide sufficient appropriate audit evidence to support property, plant and equipment. The municipality's system did not allow for the performance of alternative procedures to obtain reasonable assurance that all property, plant and equipment were properly recorded. Consequently I was unable to satisfy myself as to the completeness, valuation and allocation, existence, and rights and obligations of property, plant and equipment of R112 658 887 (2009: R90 454 643) as disclosed in note 5 to the financial statements.
10. The municipality wrote off assets as repairs and maintenance. Had these assets been treated correctly repairs and maintenance would have decreased with R1 486 757 while property, plant and equipment would have increased with the same amount.

Investment property

11. The municipality could not provide sufficient appropriate audit evidence to support the completeness of investment property of R3 315 500 as disclosed in note 6 to the financial statements. The municipality's system did not allow for the performance of alternative procedures. Consequently I was unable to satisfy myself as to the completeness, valuation and allocation, existence, and rights and obligations of investment properties.

VAT receivable

12. The municipality paid R2 092 656 to consultants, which was incorrectly recorded in VAT receivable of R4 010 661 disclosed in note 9 to the financial statements instead of the expenditure vote. Had this transaction been correctly treated VAT receivables would have decreased with R2 092 656 while expenditure would have increased with the same amount.
13. The municipality could not provide sufficient appropriate audit evidence to support journal entries of R1 582 162 included in VAT receivable. The entity's records did not permit the application of alternative procedures. Consequently, I was unable to satisfy myself as to the completeness, existence, valuation and allocation, and rights and obligations of VAT receivable of R4 010 661 as disclosed in note 9 to the financial statements.



Accumulated Surplus

14. The government grant reserve of R29 035 262 included in accumulated surplus of R142 459 630 as per the statement of financial position and statement of changes in net assets was incorrectly written off as a prior period error during the current year. This reserve should have been treated in accordance with South African Statement of Generally Accepted Accounting Practice, IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Had this standard been correctly applied, deferred income would have increased with R29 035 262 while accumulated surplus would have decreased with the same amount. Furthermore, the fixed asset register did not disclose all sources of funding which relates to this reserve. Consequently I could not satisfy myself as to the completeness, existence, valuation and rights and obligations of the government grant reserve.

Expenditure

15. The municipality could not provide sufficient appropriate audit evidence to support operating leases of R1 349 528. The entity's records did not permit the application of alternative procedures. Furthermore, various invoices of R1 253 133 did not indicate the date when services was rendered to the municipality. Consequently, I was unable to satisfy myself as to the completeness, accuracy, occurrence, cut-off and classification of general expenses of R39 240 823 as disclosed in note 25 to the financial statements.

Unauthorised, irregular, fruitless and wasteful expenditure

16. The municipality did not completely disclose particulars of unauthorised, irregular, fruitless and wasteful expenditure in note 31 to the financial statements as required by section 125(2)(d) of the MFMA. Alternative procedures indicated additional irregular expenditure of R26 560 324 and unauthorised expenditure of R1 008 911 resulting from non-compliance with supply chain management policies and procedures, amounts not disclosed as irregular expenditure as well as numerous expenses not budgeted for not disclosed as such in note 31 to the financial statements.

Capital commitments

17. The municipality could not provide sufficient appropriate audit evidence to support commitments of R38 641 175 (2009: R150 870 280) included in note 33 to the financial statements. Simultaneously as a result I was unable to obtain sufficient appropriate audit evidence to support the completeness of retention funds of R821 966 included in trade creditors of R3 827 618 disclosed in note 7 to the financial statements. The entity's records did not permit the application of alternative procedures. Consequently, I was unable to satisfy myself as to the completeness, existence, valuation and allocation, and rights and obligations of commitments and the completeness of retention funds respectively.

Lease commitments

18. Standards of Generally Recognised Accounting Practice, GRAP 13, *Leases*, paragraph 50 requires that an entity shall in addition to meeting the requirements of the standard make disclosures for operating leases for the total of future minimum lease payments under non-cancellable, operating leases for each of the periods, not later than one year, later than one year and not later than five years and later than five years. Contrary to this requirement, the municipality did not disclose its operating leases of R1 349 528 as required by the standard. Consequently, I was unable to satisfy myself as to the completeness, existence, valuation and allocation, and rights and obligations of lease commitments.

Qualified opinion

19. In my opinion, except for the effects of the matters described in the basis of qualified opinion paragraphs the financial statements present fairly, in all material respects, the financial position of Greater Taung Local Municipality as at 30 June 2010 and its financial performance



and its cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

Amendments to the applicable basis of accounting

20. The municipality opted to make use of the transitional provisions (directives 4 and 5) from the National Treasury, which is applicable to high and medium-capacity municipalities, which granted the municipality exemption from certain measurement and disclosure requirements, as disclosed in note 1.1 in the accounting policies.

Restatement of corresponding figures

21. As disclosed in note 30 to the financial statements, the corresponding figures for various accounts have been restated as a result of errors discovered during the 2010 year in the financial statements of the Greater Taung Local Municipality at, and for the year ended, 30 June 2009.

Unauthorised, fruitless and wasteful and irregular expenditure

22. As disclosed in note 31 to the financial statements, unauthorised, fruitless and wasteful and irregular expenditure to the amounts of R6 407 482, R977 559 and R29 786 030 (2009: R15 964 105) respectively was incurred. This was due to the overspending on the budgeted votes, payment of interest and penalties and non compliance with supply chain management policies and procedures respectively.

Unaudited supplementary schedules

23. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

Additional matters

I draw attention to the matters below. My opinion is not modified in respect of these matters:

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

24. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations MFMA; Division of Revenue Act of South Africa, 2009, No 12 of 2009 (DoRA); Municipal Systems Act of South Africa, 2000, No 32 of 2000 (MSA); Municipal Structures Act of South Africa, 1998, No 117 of 1998, and financial management (internal control).

Predetermined objectives

25. Material findings on the report on predetermined objectives, as set out on pages [XX] to [XX], are reported below:



Non-compliance with regulatory requirements

SDBIP and annual performance agreements not submitted on time

26. The accounting officer did not submit a draft service delivery and budget implementation plan for the budget year or drafts of the annual performance agreements for the municipal and senior managers to the mayor, within 14 days after approval of the annual budget as required in terms of section 69(3) of the MFMA.

Performance assessment not completed

27. Contrary to the requirements of the MFMA section 72(1)(a), the accounting officer did not complete an assessment of the mid -year budget and the performance for the municipality in terms of the SDBIP by 25 January 2010.

No reporting against predetermined objectives, indicators and targets

28. Greater Taung Local Municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

Usefulness of reported performance information

29. The following criteria were used to assess the usefulness of the planned and reported performance:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
 - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Planned objectives, indicators and targets not included in the IDP and SDIB

30. The integrated development plan and strategic development and budget implementation plan of Greater Taung Local Municipality did not include measurable objectives, expected outcomes, programme outputs, indicators (measures) and targets for all of the municipality's programmes.

Reliability of reported performance information

31. The following criteria were used to assess the usefulness of the planned and reported performance:
- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Insufficient, appropriate audit evidence for performance outputs reported

32. Sufficient appropriate audit evidence in relation to any of the selected programmes could not be obtained. There were also no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported information.



Compliance with laws and regulations

Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA),

Lack of control over bank account

33. Contrary to the requirements of the MFMA section 10(1)(a) to (c) the municipality did not have control over one of its bank accounts as the authorised signatories were not employed by the municipality anymore.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

34. Expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality, which resulted in irregular expenditure as per the definition of "irregular expenditure" in section 1 of the MFMA.

Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure

35. Expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality as required by section 15 of the MFMA.

The municipality did not manage unauthorised, irregular and fruitless and wasteful expenditure as prescribed

36. Unauthorised, irregular and fruitless and wasteful expenditure was not managed as prescribed in section 32 of the MFMA.

Supply Chain Management legislative requirements were not implemented or not adhered to (not resulting in irregular expenditure)

37. Proper record keeping and management was not in place resulting in requested information not being available or supplied with a significant delay, as required by section 62(1)(b).

Ineffective and ineffective systems internal controls

38. Contrary to the requirements of MFMA section 62(1)(c)(i), the accounting officer did not ensure that the municipality has and maintains effective, efficient and transparent systems financial and risk management.

Invoices not paid within 30 days

39. Contrary to the requirements of MFMA section 99(2)(b), invoices were not paid within 30 days of receipt of the invoice.

The financial statements were not prepared in accordance with applicable legislation

40. The municipality did not prepare financial statements in accordance with section 121(1) of the MFMA which fairly presents the state of affairs of the municipality, as corrections of material misstatements were made to the annual financial statements submitted for audit on 31 August 2010.

Annual report not tabled within 7 months after year end

41. Contrary to the requirements of MFMA section 127(2), the mayor did not table the 2008/2009 annual report to the municipal council within 7 months after year end.

Annual report not submitted to provincial legislature on time

42. Contrary to the requirements of MFMA section 132(1) and (2) the 2008/2009 annual report of the municipality, together with the oversight reports on the annual report was not submitted to



the provincial legislature within 7 days after adoption of the reports by council.

Supply Chain Management Regulations (SCM)

Tenders not advertised on CIDB website

43. Contrary to the requirements in regulation 21(a)(iii), the municipality called for tenders without advertising these in the CIDB website.

INTERNAL CONTROL

44. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, DoRA but not for the purpose of expressing an opinion on the effectiveness of internal control.

45. The matters reported below are limited to the significant deficiencies regarding the basis for qualified opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

- **Financial and performance management**

Requested information was not available and this information was not supplied without any significant delay. Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

- **Governance**

The entity does not identify risks relating to the achievement of financial and performance reporting objectives

OTHER REPORTS

Investigations

46. An investigation is being conducted to probe the manner in which contracts were awarded to contractors by the Special Investigation Unit (SIU) and The South African Police Services (SAPS). The investigation emanates from the previous financial year and was still ongoing at the date of this report.

Auditor General

Potchefstroom

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

